

**CALIFORNIA INFRASTRUCTURE AND ECONOMIC DEVELOPMENT BANK (I-Bank)
501(c)(3) REVENUE BOND FINANCING PROGRAM**

STAFF REPORT

EXECUTIVE SUMMARY

Applicant:	Pueblo Serra Worship Holdings (Holding Company or Borrower)	Amount Requested:	Not to exceed \$56,000,000
Applicant Description:	JSerra Catholic High School (School) is a California nonprofit public benefit religious corporation that operates an independent, co-educational private Roman Catholic school serving students in grades nine through twelve. Pueblo Serra Worship Holdings is the holding entity that is entering into the financing. Both entities are qualified 501(c)(3) corporations under federal law.		
Type of Bonds:	Refunding		
Bonds to be Refunded:	California Infrastructure and Economic Development Bank Variable Rate Demand Revenue Bonds Series 2009A, 2009B, 2009C (JSerra Catholic High School Project) (collectively, the 2009 Bonds)		
Prior Project:	Construction costs of school facilities owned and operated by the Borrower were refinanced with the 2009 Bonds (Prior Project) – see Plan of Finance contained herein.		
Project Sites:	26300, 26311, 26331, 26351 and 26353 Junipero Serra Road, San Juan Capistrano, CA		
Plan of Finance:	The I-Bank will issue tax-exempt variable rate demand obligations (Tax-Exempt Obligations) and the proceeds will be loaned to the Borrower and used to effect a refunding of the 2009 Bonds and pay issuance costs.		
Type of Issue:	Limited obligations privately placed through a direct purchase as follows: Series 2013A placed with Wells Fargo Bank, a Qualified Institutional Buyer (QIB) Series 2013B placed with Comerica Bank, a QIB Series 2013C placed with Farmers and Merchants Bank, a QIB		
Tax Status:	Tax-exempt.		
Term:	26 years.		
Credit Enhancement:	None.		
Credit Rating:	None.		
Est. Sources of Funds:		Est. Uses of Funds:	
Tax-Exempt Obligations	\$55,130,000	Refund 2009 Bonds	\$55,130,000
Equity Contribution	487,830	Costs of Issuance	487,830
TOTAL SOURCES	\$55,617,830	TOTAL USES	\$55,617,830
Financing Team:			
Bond Counsel:	Kutak Rock LLP		
Private Placement Purchasers:	Wells Fargo Bank N.A., Comerica Bank and Farmers and Merchants Bank		
Trustee:	Wells Fargo Bank, N.A.		
Public Benefits:	By refunding the 2009 Bonds, the Borrower estimates it will achieve approximately \$553,800 in debt service savings per year which will be used to provide additional funding for financial aid and community outreach programs.		
Date of Board Meeting:	July 23, 2013	Resolution Number:	13-10
Prepared by:	Tara Dunn		
Staff Recommendation:	Staff recommends approval of Resolution 13-10 approving the issuance of tax-exempt obligations in an amount not to exceed \$56,000,000 to be sold through a private placement and loaning the proceeds to Pueblo Serra Worship Holdings.		

BACKGROUND AND HISTORY

Pueblo Serra Worship Holdings (Holding Company or Borrower), a qualified 501(c)(3) non-profit corporation, is the holding company for the JSerra Catholic High School (School), located in San Juan Capistrano, California.

The Holding Company was originally formed in 2002 as Pueblo Serra, Inc. a California 501(c)(3) nonprofit corporation. The stock of Pueblo Serra, Inc. was donated to the School. The Holding Company became a California non-profit religious corporation in 2003, the sole member of which is the School. The Holding Company owns the land in the City of San Juan Capistrano on which the classroom facilities (North Campus) are located and leases, under a long-term ground lease, the land on which the athletic facilities (South Campus) are located. The Holding Company leases both the North and South Campus to the School.

Enrollment and Tuition

The School opened on September 3, 2003 with 9th grade, adding a class each year with the first class graduating in June 2006. The School anticipates having a total of 1,100 students in grades nine through twelve at the beginning of the 2013/2014 school year, and projects to serve 1,300 students by 2018. The 2013/2014 school year tuition is \$15,125. Approximately 130 of the School's students (12.6%) are from the City of San Juan Capistrano, with the remaining students coming from approximately 66 feeder schools in the surrounding communities/cities ranging from northern San Diego County to northern Orange counties.

Curriculum & Accreditation

The School offers a comprehensive college preparatory curriculum including both secular and religious courses. While the School is Catholic-based, it is also ecumenical and open to students of all faiths. Approximately forty percent of the student body is non-Catholic. Teachers are credentialed and/or have advanced academic degrees and are specially selected for their ability to work well with students and colleagues. The School strives to provide a well-rounded education putting emphasis on the formation of the whole person (i.e., intellectually, spiritually, physically and emotionally). The School is recognized and approved by the Diocese of Orange and accredited by the Western Association of Schools and Colleges and the Western Catholic Education Association.

Community Involvement

Serving the community is an integral part of the School's mission and philosophy. Students are encouraged to develop their own personal responsibility and contribute back to the community in which they live. Students must fulfill 80 hours of specified community service requirements as a condition for graduation.

Financial Aid

The School offers financial aid to qualified families. It also offers scholarships based upon academic achievement, leadership, community service and commitment to the arts. Since inception, the School has provided over \$10 million in financial aid and scholarships to the student body with over \$2 million already awarded for the 2013/2014 school year.

A list of the Holding Company's Board of Directors and Management Team as well as the School's Board of Directors, Board of Trustees and Management Team are provided in Attachment A – Governance and Management.

Previous I-Bank Financing

On August 25, 2009, the I-Bank Board approved the issuance of \$56.5 million of tax-exempt bonds (2009 Bonds) for the benefit of the Holding Company to refinance school facilities capital projects owned and operated by the Holding Company and located in Orange County.

PLAN OF FINANCE

The Holding Company is requesting approval for the issuance of one or more series of tax-exempt obligations (Tax-Exempt Obligations) in an amount not to exceed \$56,000,000 to effect the refunding of the 2009 Bonds for the benefit of the School, a 501(c)(3) nonprofit entity.

The proceeds of the 2009 Bonds were used to refund the Colorado Educational and Cultural Facilities Authority (CECFA), Adjustable Rate Revenue Bonds (Pueblo Serra Worship Holdings Project), Series 2006 (CECFA Bonds) and also refinanced taxable loans (Taxable Loans).

The proceeds of the CECFA Bonds and the Taxable Loans were used to finance the construction of the School's facilities located at 26300, 26311, 26331, 26351 and 26353 Junipero Serra Road, in San Juan Capistrano. The School's facilities cover approximately 40 acres of land and are divided into two adjacent campuses, connected by a pedestrian bridge. The North Campus occupies over 60,000 square feet of building space and house the following: 64 state-of-the-art classrooms; library/media center; chapel; food service facilities; meeting and dining facilities; technology department; administrative offices, health center; uniform store; and main locker pod. The South Campus is home to the athletic department offices; a 2,000 seat gymnasium; an Olympic-class aquatics center; a fully-equipped training center; varsity and junior varsity softball and baseball fields, five soccer fields, and football and lacrosse fields (all utilizing artificial turf for maximum safety and playability); six tennis courts; a synthetic running track; boys and girls training facilities and two sand volleyball courts (collectively, Prior Project).

If approved, the proceeds of the Tax-Exempt Obligations will be used to (i) refund the 2009 Bonds, and (ii) pay for costs of issuance of the Tax-Exempt Obligations.

The purpose of the refunding is to replace the publically offered 2009 Bonds secured by existing letters of credit with privately placed Tax-Exempt Obligations to eliminate the need for letters of credit, but include a payment guarantee jointly provided by two private trusts affiliated with the Holding Company. The Tax-Exempt Obligations will be structured as variable rate demand securities and will include a covenant allowing the Borrower to change to variable interest rate modes with longer terms, or to convert to a fixed interest rate and term.

The Tax-Exempt Obligations will be privately placed with Wells Fargo Bank, N.A., Comerica Bank and Farmers and Merchants Bank (each a Purchaser and collectively, the Purchasers). The proceeds of the Tax-Exempt Obligations will then be loaned to the Holding Company pursuant to a loan agreement between the I-Bank, the Holding Company and the Purchasers (Loan Agreement). The Loan Agreement and Tax-Exempt Obligations will have a stated term of 26 years. The Tax-Exempt Obligations are expected to be issued as follows:

Purchaser	Series	Expected Par Amount	Expected Interest Rate Mode
Wells Fargo Bank, N.A.	2013 A	\$31,975,000	Variable
Comerica Bank	2013 B	\$15,000,000	Variable
Farmers and Merchants Bank	2013 C	\$ 9,155,000	Variable
	Total:	\$55,130,000	

The principal and interest due under the Tax-Exempt Obligations shall be paid solely from the revenues pledged under the indenture. Such revenues consist primarily of the Holding Company's payment of its obligations under the Loan Agreement. In no event shall the Tax-Exempt Obligations be deemed to constitute a debt or liability or obligation of the State or any political subdivision thereof except as limited obligations of the I-Bank, or a pledge of the faith and credit or taxing power of the State or any political subdivision thereof, but shall be a limited obligation of the I-Bank payable solely from the funds pledged therefor under the Indenture.

In accordance with the I-Bank "Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities" (Policies), the I-Bank's general policy is to issue its revenue bonds and similar obligations bearing certain minimum ratings. The Policies provide that the I-Bank may waive the requirement for a credit rating where the applicant will use a private placement or limited underwriting offering structure subject to the following additional conditions:

1. **Sophisticated Investor.** The investor(s) will be required to sign a "sophisticated investor" letter acceptable to the I-Bank. Each investor must be a qualified institutional buyer within the meaning of S.E.C. Rule 144A (Qualified Institutional Buyer), or an equivalent sophisticated investor with a demonstrated understanding of the risks associated with the municipal market, acceptable to the [I-Bank].
2. **Resale Limitations.** Depending on the circumstances of the proposed sale, the I-Bank may require conditions for the resale of the obligations after initial issuance.
3. **Minimum Denomination.** The I-Bank will require a minimum denomination of at least \$100,000 on private placements or limited underwritten offerings; denominations may be higher depending on the circumstances of the sale.

The Tax-Exempt Obligations will only be offered to and subsequently purchased by Wells Fargo Bank, N.A., Comerica Bank and Farmers and Merchants Bank, and thus constitute a private placement. In order to meet the I-Bank's requirements for private placements, Wells Fargo Bank, N.A., Comerica Bank and Farmers and Merchants Bank must provide a sophisticated investor letter (Letter) at closing certifying, among other things, that: (i) it is a Qualified Institutional Buyer; (ii) it has sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the Tax-Exempt Obligations and that it is able to bear the economic risks of such investment; and, (iii) provisions in the Loan Agreement that prohibit the sale of any interest in the Loan Agreement except to another Qualified Institutional Buyer or an "accredited investor" within the meaning of Rule 501 promulgated under the Securities Act as well provisions that impose minimum denomination requirements.

Wells Fargo Bank, N.A., Comerica Bank and Farmers and Merchants Bank meet the definition of a Qualified Institutional Buyer in Section 144(A) promulgated under the Securities Act of 1933, as amended, and the minimum resale denomination of the Tax-Exempt Obligations to another QIB is \$250,000.

ELIGIBILITY FOR TAX-EXEMPT CONDUIT BOND FINANCING

The School is a California nonprofit religious corporation located in the City of San Juan Capistrano, California. The Holding Company, a California nonprofit religious corporation, is the sole member of the School. Both entities are qualified 501(c)(3) organizations under federal law. The School's facility is proposed to be refinanced with the proceeds of the Tax-Exempt Obligations. As such, Kutak Rock LLP (Bond Counsel) was asked to provide a memorandum to the I-Bank discussing how the Tax-Exempt Obligations do not violate with applicable constitutional prohibitions of the "establishment of religion" (Constitutional Prohibitions) as manifested by the use of the proceeds of tax-exempt obligations, issued by a public entity (I-

Bank) to finance a project for a borrower (Holding Company) for the benefit of another entity (School) operating a pervasively sectarian school so long as certain conditions, set forth in opinions of the California Supreme Court are met. Bond Counsel performed a legal analysis and concluded that the proposed issuance of the Tax-Exempt Obligations by the I-Bank meets the conditions as articulated in the controlling case of California Statewide Communities Development Authority v. All Persons Interested (2007) 40 Cal.4th 788 (CSCDA) as well as supported by related cases (collectively, Applicable Law).

Applicable Law provides that the Constitutional Prohibitions are not violated so long as the religious school participating in the conduit financing program (I) offers a broad curriculum in secular subjects, comprised of classes whose academic content is neutral with respect to religion, and (ii) the facilities built or improved with state funds are not used for theological or divinity programs or as a place of worship.

Based on its examination of the relevant School facts and documents and its analysis of the law, Bond Counsel concluded that the issuance of the Tax-Exempt Obligations for the benefit of the School meet the conditions of Applicable Law. The I-Bank's General Counsel reviewed the Applicable Laws as well as the Bond Counsel's conclusions and concurs in the conclusion that there are no constitutional obstacles to the issuance of the Tax-Exempt Obligations.

PUBLIC BENEFITS

By refunding the 2009 Bonds, the Borrower estimates it will achieve approximately \$533,800 in annual debt service savings, which will be used to provide additional funding for School financial aid and community outreach programs.

OTHER PROJECT DATA

PERMITS AND APPROVAL	
Required?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Describe:
TEFRA	
Date of TEFRA	N/A
Publications	
Oral/Written Comments Received	<input type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
LEGAL QUESTIONNAIRE	
Completed?	<input type="checkbox"/> NO <input checked="" type="checkbox"/> YES
Issues?	<input checked="" type="checkbox"/> NO <input type="checkbox"/> YES, Explain:
ELIGIBILITY REVIEW	
Project meets Public Interest Criteria (per G.C. § 63046 and 63047(d)) <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	<ol style="list-style-type: none"> 1. The Tax-Exempt Obligations are for a use in the State of California. 2. Borrower is capable of meeting its obligations incurred under the proposed Loan Agreement and tax certificate, and, in particular as to its loan repayment obligations which secure the Tax-Exempt Obligations, based upon Purchasers' commitment to purchase the Tax-Exempt Obligations. 3. Payments to be made by Borrower to the I-Bank under the proposed Loan Agreement are adequate to pay the current expenses of the I-Bank in connection with the financing and to make all the scheduled payments. 4. The proposed financing is appropriate for refinancing the 2009 Bonds. 5. Borrower has represented that the facilities originally financed with the proceeds of the 2009 Bonds were consistent with any existing local or regional comprehensive plans.
The Tax-Exempt Obligations meet the Policies and Procedures for Conduit Revenue Bond Financing for Economic Development Facilities established as guidelines for I-Bank Staff by the Board: <input checked="" type="checkbox"/> YES <input type="checkbox"/> NO	
However, issuance of the Tax-Exempt Obligations requires the grant of a waiver of rating requirements as established in the Policies. The Tax-Exempt Obligations meet the basis for such a waiver.	
INDUCEMENT CERTIFICATE	
Completed?	<input type="checkbox"/> NO <input type="checkbox"/> YES Certificate No.: <input checked="" type="checkbox"/> N/A Date:

RECOMMENDATION

Staff recommends approval of Resolution 13-10 approving the issuance of tax-exempt variable rate demand bonds in an amount not to exceed \$56,000,000 to be sold through a private placement and loaning the proceeds to Pueblo Serra Worship Holdings.

ATTACHMENT A – GOVERNANCE AND MANAGEMENT

Pueblo Serra Worship Holdings – Management Team

Timothy R. Busch	Chairman of the Board and President
Matt Heslin	Secretary
Michele Ramirez	Chief Financial Officer

Pueblo Serra Worship Holdings – Board of Directors

Timothy Busch	Chairman of the Board
Thomas H. Parr	Member
Steve Milner	Member
Steve Cameron	Member
Matt Heslin	Member

JSerra Catholic High School's – Management Team

Richard Meyer	President and Principal
Fr. Robert Spitzer	Rector
Eric Stroupe	Vice Principal, Curriculum
Andy Sulick	Director of Admissions
Kevin Baldrige	Secretary
Michele Ramirez	Chief Financial Officer

JSerra Catholic High School's – Board of Directors

Timothy Busch	Chairman of the Board
Lisa Assad	Member
Dave Bacino	Member
Kevin Baldrige	Member
Peter Bastone	Member
Miles Brandon	Member
Steve Cameron	Member
Michael Carroll	Member
Tom Clements	Member
Dennis Day	Member
George Haggerty	Member
James Heinrich	Member
Matt Heslin	Member
Aaron Kheriaty	Member
Laura Khouri	Member
Tracy Kozlowski	Member
Tony Lemos	Member
Linda Lindholm	Member
Matt Massengil	Member
Terri Morris	Member
Tom Parr	Member
Rita Patel	Member
Rick Reynolds	Member
Gordon Roth	Member
Kevin Tiber	Member
Anthony Trimino	Member
Angie Trudell	Member
Father Spitzer	Member
Richard Zak	Member